BUSINESSEUROPE

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

26 March 2013

Dear Sirs,

Re: Exposure Draft Equity Method: Share of Other Net Asset Changes

BUSINESSEUROPE welcomes the opportunity to comment on the proposal to amend IAS 28.

We agree it is helpful to address the diversity in practice in this area but we do not believe that all "Other Net Asset Changes" within the ED's scope have the same characteristics and therefore that a single accounting method is appropriate. We also believe that the scope of the change proposed is not clear.

In the past a number of items were recognised directly in equity as it was thought inappropriate to recognise them in profit and loss since this did not best represent performance of the period. Since the creation of the Other Comprehensive Income category this has been used to store some of these items and recycle them when deemed appropriate. However, there is still an active debate about the principle to be used to govern recycling. Indeed, the Board is considering this subject as a major element of the revision of the Conceptual Framework. We therefore think that it is highly inadvisable at this time to promote the use of a new category of "recyclable equity".

It may be considered that a change in the share of net assets as a result of a change in an investor's percentage interest in an investee (as set out in the Example illustrating paragraph 10(d)) is different from other net asset changes. One might ask why the accounting should be different compared with a linked transaction involving a direct sale of 5% from the investor to the third party for cash of CU125, with the investee issuing additional shares (in the new proportion 25:75) to both parties for CU125 and CU375 respectively. In that situation the investor would report a gain in profit or loss of CU75.

On the other hand, none of the underlying shares has been disposed of and it could be considered that the investor's share in the post-acquisition retained earnings has been revalued. As this does not reflect the performance of the investee for the period but results from a decision of the investor, the appropriate treatment might therefore be to recognise the change in OCI.

Reporting either in profit and loss or OCI is in our view a much better representation of the transaction than that proposed in the ED.

The investor's percentage interest in the investee's net assets can also change in a scrip dividend situation where the investee makes a distribution but the investor and the other shareholders make different decisions about whether to take cash or additional shares. Again we do not believe that the change in the investor's share of net assets should be recognised directly in equity but, by excluding distributions, it is not clear if they are in any case scoped out of the ED's proposal.

For other net asset changes it would be appropriate to reflect the "normal" accounting treatment in the investor's financial statements, for example the investor's share of the credit entry for an investee's share-based payments, we would support the treatment proposed in the ED.

We believe that it is essential for the Board to arrive at a clear set of principles for the use of equity accounting to reflect a share in the investee's performance and for dealing with other changes. The ED does not do this.

As regards transition, retrospective application may impose costs that would exceed the benefits, particularly if the IASB persists with the single accounting method direct to equity for all other net asset changes.

If you require any further information or explanation, please do not hesitate to contact us.

Yours sincerely,

Jérôme P. Chauvin
Director
Legal Affairs Department
Internal Market Department